

Message Text

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R 021622Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8961
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC AND USOECD ALSO FOR EMBASSIES

DEPARTMENT PASS FEDERAL RESERVE
E.O. 11652: N/A
TAGS: ECON EFIN GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY
(MAY 22-29)

1. SUBJECTS COVERED:

FRG CURRENT ACCOUNT IN APRIL (TABLE); FIRST QUARTER
1978 GNP ESTIMATES OF GERMAN ECONOMIC RESEARCH
INSTITUTE (TABLE); STRAUSS CHALLENGES MATTHOEFER
ON 1979 BUDGET; CONSTRUCTION ORDERS CONTINUE TO RISE;
WSI SEES NEW RECESSION; MONEY SUPPLY (TABLE); FOREIGN
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EXCHANGE MARKET (TABLE); MONEY MARKET (TABLE); BUNDESBANK
NOT LIABLE FOR LOSSES IN HERSTATT BANKRUPTCY; BOND
MARKET (TABLE); VOLKSWAGEN ISSUES DOLLAR BONDS.

2. FRG CURRENT ACCOUNT IN APRIL:

IN APRIL ACCORDING TO PRELIMINARY NON-SEASONALLY

ADJUSTED DATA THE FRG TRADE BALANCE WAS IN SURPLUS BY
DM 3.3 BILLION AND THE CURRENT ACCOUNT IN SURPLUS BY
DM 1.7 BILLION. THE TRADE AND CURRENT ACCOUNT DEVELOPED
AS FOLLOWS:

FRG CURRENT ACCOUNT

	APRIL		PCT. CHANGE
	1977	1978	
EXPORTS F.O.B.	21.9	23.9	9.1
IMPORTS C.I.F.	19.0	20.7	8.9
TRADE ACCOUNT	2.9	3.3	
SERVICES 1/ AND			
TRANSFERS, NET	-2.0	-1.6	
CURRENT ACCOUNT	1.0	1.7	

JANUARY - APRIL

EXPORTS F.O.B.	88.5	91.2	3.1
IMPORTS C.I.F.	76.6	79.3	3.4
TRADE ACCOUNT	11.9	11.9	
SERVICES, NET 1/	-3.2	-0.4	
TRANSFERS, NET	-5.3	-6.7	

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CURRENT ACCOUNT 3.4 4.8

1/ INCLUDING TRADE SUPPLEMENTS. FIGURES DO NOT ALWAYS
ADD UP DUE TO ROUNDING.

THE RELATIVELY HIGH GROWTH RATES FOR EXPORTS AND IMPORTS
IN APRIL 1978 OVER EXPORTS AND IMPORTS IN APRIL 1977 MAY
BE DUE IN PART TO THE HIGHER NUMBER OF WORKING DAYS IN
APRIL THIS YEAR SINCE THIS YEAR EASTER FELL IN MARCH
BUT LAST YEAR IN APRIL.

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FM AMEMBASSY BONN
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DEPARTMENT TREASURY
INFO AMEMBASSY BERN
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3. FIRST QUARTER 1978 GNP ESTIMATES OF GERMAN
ECONOMIC RESEARCH INSTITUTE (DIW):

THE GERMAN INSTITUTE FOR ECONOMIC RESEARCH IN BERLIN
(DIW) HAS PUBLISHED ITS ESTIMATES OF FRG GNP DURING THE
FIRST QUARTER OF 1978. DIW'S REGULARLY PUBLISHED
SEASONALLY AND WORKDAY ADJUSTED SERIES -- WHICH, HOWEVER,
ARE NOT FULLY COMPARABLE WITH THE MORE WIDELY USED BUT
AS YET UNAVAILABLE BUNDESBANK SEASONALLY ADJUSTED
NATIONAL ACCOUNTS FIGURES -- PLACE REAL GNP IN THE FIRST
QUARTER THIS YEAR AT A LEVEL 0.2 PERCENT BELOW THAT
RECORDED IN THE FOURTH QUARTER 1977. PUBLISHED TOGETHER
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WITH THIS SERIES WERE NON-SEASONALLY AND NON-WORKDAY
ADJUSTED FIGURES (PRESUMABLY PRELIMINARY, NOT YET
PUBLISHED ESTIMATES OF THE FEDERAL STATISTICAL OFFICE),
SHOWING A VERY MODEST 0.8 PERCENT REAL INCREASE IN THE
FIRST QUARTER 1978 OVER THE FIRST QUARTER OF 1977.
ACCORDING TO DIW, THE POOR PERFORMANCE OF THE ECONOMY
SO FAR THIS YEAR WAS PARTIALLY ATTRIBUTABLE TO SPECIAL
INFLUENCES, SUCH AS UNFAVORABLE WEATHER IN FEBRUARY

AND STRIKES IN MARCH. IN THE ABSENCE OF SUCH TEMPORARY FACTORS, REAL GNP IN THE FIRST QUARTER WOULD HAVE EXCEEDED FOURTH QUARTER 1977 LEVELS BY SOME 0.5 PERCENT IN SEASONALLY AND WORKDAY ADJUSTED TERMS. EVEN BY THIS MEASURE GROWTH WAS UNSATISFACTORY, DIW EMPHASIZES. POINTING TO WEAK DOMESTIC ORDERS IN RECENT MONTHS AND CONTINUATION OF STRIKES INTO APRIL, THE INSTITUTE PAINTS A RATHER DIM PICTURE OF PROSPECTS FOR THE SECOND QUARTER. AN APPRECIABLE PICK-UP CANNOT BE EXPECTED UNTIL THE SECOND HALF OF THE YEAR AT THE EARLIEST, DIW CONCLUDES. A TABLE DETAILING DIW'S FIRST QUARTER ESTIMATES FOLLOWS.

DIW FRG GNP ESTIMATES, 1970 PRICES

SEASONALLY AND WORKDAY ADJUSTED

BILLION DM PCT. CHANGE FROM
(ANNUALIZED) PRECEDING QUARTER

4TH Q 77 1ST Q 78 4TH Q 77 1ST Q 78

PRIVATE CONS.	457	460	0	0.7
PUBLIC CONS.	144	146	0.7	1.4
FIXED INVEST.:				
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CONSTRUCTION	105	103	1.0	-1.9
EQUIPMENT	74	72	0	-2.7
CHANGE IN				
INVENTORIES	2	4	--	--
NET FOREIGN BAL.	31	26	--	--
EXPORTS	237	237	3.0	0
IMPORTS	206	211	-1.9	2.4
GNP	813	811	0.9	-0.2

NON-SEASONALLY ADJUSTED

PCT. CHANGE FROM
BILLION DM PREVIOUS YEAR 1/

4TH Q 77 1ST Q 78 4TH Q 77 1ST Q 78

PRIVATE CONS.	122.8	108.9	2.5	3.5
PUBLIC CONS.	38.5	35.0	1.1	2.5
FIXED INVEST.:				
CONSTRUCTION	28.8	21.0	-0.7	-5.2
EQUIPMENT	21.6	16.2	3.5	1.1
CHANGE IN				

INVENTORIES	-10.1	5.2	--	--
NET FOREIGN BAL.	10.3	6.2	--	--
EXPORTS, GOODS				
AND SERVICES	62.4	57.2	4.5	3.9
IMPORTS, GOODS				
AND SERVICES	52.1	51.0	1.5	3.8

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FM AMEMBASSY BONN
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DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
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GNP 211.9 192.5 1.8 0.8

1/ CALCULATED BY DIW ON THE BASIS
OF UNROUNDED FIGURES.

4. STRAUSS CHALLENGES MATTHOEFER ON 1979 BUDGET:

FRANZ JOSEF STRAUSS, CHAIRMAN OF THE CSU, HAS CHALLENGED
FINANCE MINISTER MATTHOEFER ON HIS PROPOSALS TO RAISE
BUDGETARY OUTLAYS FOR 1979 MORE THAN PREVIOUSLY

CONTEMPLATED. IN AN INTERVIEW, WHICH WAS GIVEN WIDE DISTRIBUTION BY THE NATIONAL PRESS, STRAUSS NOTED THAT UNCLASSIFIED

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THE BUNDESTAG HAS RECENTLY AGREED UNANIMOUSLY THAT THE RATE OF GOVERNMENT INDEBTEDNESS SHOULD BE LOWERED IN 1979. ACCORDING TO STRAUSS, THIS WOULD BRING GOVERNMENT FINANCES INTO LINE WITH THE CONSTITUTIONAL REQUIREMENTS OF ARTICLE 115 (VIZ, CURRENT ACCOUNT OF BUDGET SHOULD BE IN BALANCE EXCEPT FOR PERIODS OF "ECONOMIC IMBALANCE"). HE OBSERVES THAT IN THE ABSENCE OF HIGHER TAXES THIS OBJECTIVE COULD ONLY BE REACHED BY FISCAL RESTRAINT; INSTEAD, THE FINANCE MINISTER IS PROPOSING TO SPEND MORE THAN THE SIX PERCENT INCREASE ENVISAGED BY THE MEDIUM-TERM FINANCIAL PLAN. STRAUSS TERMS THIS PROPOSAL "A NEW VIOLATION OF THE CONSTITUTION -- THE THIRD SINCE 1975."

5. CONSTRUCTION ORDERS CONTINUE TO RISE:

THE RECENT TREND OF HIGHER CONSTRUCTION ORDERS CONTINUED THROUGH MARCH. ACCORDING TO THE FEDERAL STATISTICAL OFFICE, NEW ORDERS BOOKED BY BUILDING CONTRACTORS IN MARCH (NON-SEASONALLY ADJUSTED) INCREASED MORE THAN MIGHT HAVE BEEN EXPECTED FOR PURELY SEASONAL REASONS, SURPASSING FEBRUARY LEVELS BY WELL OVER 50 PERCENT AND MARCH 1977 LEVELS BY CLOSE TO ONE-FOURTH. EMPLOYMENT IN THE CONSTRUCTION INDUSTRY ALSO INCREASED IN MARCH BUT CONTINUED TO FALL SHORT OF LAST YEAR'S LEVELS (DOWN 2.7 PERCENT FROM MARCH 1977).

6. WSI SEES NEW RECESSION, WANTS MORE GOVERNMENT INVESTMENT:

THE INSTITUTE FOR ECONOMIC AND SOCIAL SCIENCES (WSI), A RESEARCH ORGANIZATION FINANCED BY THE GERMAN LABOR ORGANIZATION (DGB), VIEWS THE PRESENT WEAKNESS OF THE ECONOMY AS EVIDENCE THAT THE EXPANSIVE FACTORS AT WORK DURING LATE 1977 HAVE PLAYED OUT AND THAT THE ECONOMY UNCLASSIFIED

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HAS MOVED INTO A NEW RECESSIONARY PHASE. ACCORDING TO PRESS REPORTS, THE WSI'S LATEST REPORT ON THE ECONOMIC SITUATION ARGUES THAT AN EXPANSIVE MONETARY POLICY AND HIGHER PROFITS HAVE PROVEN INEFFECTIVE IN RAISING THE LOW RATE OF PRIVATE INVESTMENT. THE INSTITUTE PROPOSES A HIGHER LEVEL OF GOVERNMENT INVESTMENT WHICH, IT SAYS, UP TO NOW HAS BEEN ONLY "A DROP IN THE BUCKET" IN

COMPARISON WITH WHAT IS NEEDED. THE WSI SEES THE NEED
FOR FURTHER FISCAL STIMULATION OF THE ECONOMY SUPPORTED
NOT ONLY BY A WEAK FIRST QUARTER BUT ALSO BY THE YET
TO-BE-SEEN RESULTS FOR APRIL.

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7. MONEY SUPPLY:
IN APRIL, BOTH ON A SEASONALLY ADJUSTED AND NON-ADJUSTED
BASIS, MONETARY EXPANSION ACCELERATED CONSIDERABLY.
THE INDIVIDUAL MONETARY AGGREGATES DEVELOPED AS FOLLOWS
(CHANGES IN DM BILLION, QUARTERLY DATA ARE MONTHLY
AVERAGES -- FOR APRIL DEVELOPMENTS OF CENTRAL BANK
MONEY SEE BONN 9454):

SEASONALLY ADJUSTED

1977 1978

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	4TH Q	1ST Q	MARCH	APRIL
M1	0.6	4.3	0.7	2.0
M2	3.5	1.2	-0.8	4.0
M3	5.1	2.6	0.3	5.6

M1	0.6	4.3	0.7	2.0
M2	3.5	1.2	-0.8	4.0
M3	5.1	2.6	0.3	5.6

SEASONALLY NON-ADJUSTED

M1	5.0	-1.3	1.2	4.2
M2	11.1	-6.9	-4.8	6.9
M3	14.9	-5.8	-6.3	7.2

A MAJOR FACTOR CONTRIBUTING TO THE ACCELERATION IN THE MONETARY EXPANSION IN APRIL WAS A SUBSTANTIAL REDUCTION IN ASSETS OF PUBLIC AUTHORITIES HELD AT THE BUNDESBANK (EE TABLE BELOW). IN APRIL, THE INDIVIDUAL COMPONENTS OF THE MONEY SUPPLY DEVELOPED AS FOLLOWS(SEASONALLY NON-ADJUSTED, CHANGES IN DM BILLION):

	MARCH	APRIL
1978	1977	1978

I. LENDING TO DOMESTIC NON-

BANKS	8.1	7.4	7.2
FROM BUNDESBANK	0.0	-0.1	0.1
FROM COMMERCIAL BANKS	8.1	7.5	7.1
TO PUBLIC SECTOR	0.7	1.4	1.5
TO PRIVATE SECTOR	7.3	6.1	5.6

II. NET EXTERNAL POSITION OF

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BUNDESBANK AND COMMERCIAL

BANKS	0.4	-1.3	-3.2
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III. LONG-TERM BANK DEPOSITS

AND OUTSTANDING BANK

BONDS (1)	4.9	3.6	3.2
-----------	-----	-----	-----

IV. OFFICIAL ASSETS

HELD AT CENTRAL BANK	3.4	-2.7	-6.0
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V. OTHER	6.5	1.7	-0.4
----------	-----	-----	------

VI. M3 (2) (EQUALS I PLUS II
MINUS III MINUS IV MINUS
V) -6.3 3.5 7.2
VII, M2 (M3 MINUS SAVINGS
DEPOSITS) -4.8 4.1 6.9
VIII. M1 (M2 MINUS TIME
DEPOSITS) 1.2 2.9 4.2

(1) EXCLUDING SIGHT DEPOSITS, TIME DEPOSITS WITH MATU-
RITIES UP TO 4 YEARS, AND SAVINGS DEPOSITS WITH 3-MONTH
PERIOD OF NOTICE, AND BONDS HELD BY BANKS.

(2) CURRENCY IN CIRCULATION, SIGHT DEPOSITS, TIME DEPO-
SITS WITH MATURITIES UP TO 4 YEARS AND SAVINGS DEPOSITS
WITH 3-MONTH PERIOD OF NOTICE.

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8. FOREIGN EXCHANGE MARKET:

DURING THE PERIOD UNDER REVIEW THE DOLLAR/DM EXCHANGE RATE FLUCTUATED, RISING TO ALMOST \$1 EQUALS DM 2.13 ON MAY 24 THEN DECLINING RATHER SHARPLY TO ONLY SLIGHTLY MORE THAN \$1 EQUALS DM 2.11. VOLUME OF TRADING WAS REPORTEDLY RELATIVELY LIGHT. FOR THE PERIOD MAY 23-30, FRANKFURT SPOT AND FORWARD DOLLAR RATES WERE AS FOLLOWS:

	SPOT DOLLARS	FORWARD DOLLARS			
	(IN DM PER \$1.--)	(IN PCT. PER ANNUM)			
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
	-----	-----	-----	-----	-----

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MAY 23	2.1235	2.1248	2.1257	-4.0	-4.4
24	2.1290	2.1292	2.1265	-4.1	-4.5
25	----- GERMAN HOLIDAY -----				
26	2.1242	2.1237	2.1210	-4.8	-4.7
29	2.1155	2.1130	2.1125	-4.7	-4.6
30	2.1090	2.1113	N.A.	N.A.	N.A.

9. MONEY MARKET:

TIGHT CONDITIONS CONTINUE ON GERMAN MONEY MARKETS. FOR THE PERIOD UNDER REVIEW, FRANKFURT INTERBANK LENDING RATES WERE AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
	-----	-----	-----
MAY 23	3.50-3.55	3.55	3.60
24	3.50-3.55	3.55	3.60
25	----- GERMAN HOLIDAY -----		
26	3.50-3.60	3.55	3.60
29	3.50-3.60	3.55	3.60

10. BUNDESBANK NOT LIABLE FOR LOSSES IN HERSTATT

BANKRUPTCY:

THE HIGHEST GERMAN COURT, THE FEDERAL SUPREME COURT, HAS NOW DECIDED THAT THE BUNDESBANK IS NOT LIABLE FOR LOSSES OF BANKS RESULTING FROM THE HERSTATT BANKRUPTCY. TWO LOWER GERMAN COURTS HAD RULED IN FAVOR OF THE SUITS OF TWO BANKS AGAINST THE BUNDESBANK BUT THE SUPREME COURT OVERTURNED THOSE DECISIONS.

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11. BOND MARKET:
ON THE MARKET FOR DOMESTIC BONDS PRICE DECLINES CON-
TINUED. ACCORDING TO THE PRESS, AVERAGE YIELDS
OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING
MATURITY WERE AS FOLLOWS:

REMAINING MATURITY (YEARS)	1	3	5	7	9	10
MAY 26	4.15	5.15	5.70	6.05	6.35	6.45
MAY 19	4.05	5.05	5.55	5.90	6.15	6.25

REPORTEDLY THE BUNDESBANK IS NOW INTERVENING ON THE
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BOND MARKET BY PURCHASING BONDS FOR ITS OWN ACCOUNT.
THUS FAR THE BUNDESBANK HAD PURCHASED BONDS ONLY ON
ACCOUNT OF THE ISSUERS OF PUBLIC BONDS. THE PRESS
REPORTED THAT DURING THE LAST WEEK BOND PURCHASES OF
ALL AGENCIES INTERVENING FOR PUBLIC BONDS HAD AMOUNTED
TO DM 450 MILLION.

12. VOLKSWAGEN ISSUES DOLLAR BONDS:

VOLKSWAGEN INTERNATIONAL FINANCE N.V., A 100 PERCENT
SUBSIDIARY BASED IN AMSTERDAM, IS ISSUING \$35
MILLION IN BONDS BY WAY OF PRIVATE PLACEMENT THROUGH
THE COMMERZBANK. THE ISSUE CARRIES A NOMINAL INTEREST
RATE OF 7.75 PERCENT AND WILL BE SOLD AT 99.5
(EFFECTIVE YIELD 7.90 PERCENT). THE MAXIMUM
MATURITY IS 7 YEARS AND THE ISSUE WILL BE RE-
TIRED IN 7 EQUAL ANNUAL PAYMENTS.
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